

CITY OF BOYNE CITY, MICHIGAN

APRIL 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 17, 2008

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of the City Commission
City of Boyne City
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City, Michigan, as of and for the year ended April 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boyne City, Michigan's, management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Boyne City Housing Commission, a component unit of the City of Boyne City, which represent thirty-one percent of the net assets, and fifty-four percent of the revenues of the discretely presented component units of the City. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boyne City Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of April 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through xii and 34-39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City, Michigan's, basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Accounting Standards*, we have also issued our report dated October 17, 2008, on our consideration of the City of Boyne City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Management's Discussion and Analysis

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2008. This is the fourth of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$15,037,537 (net assets). Of this amount, \$3,778,198 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,139,843.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,116,327 an increase of \$17,932 in comparison with the prior year. Approximately 96% of the ending fund balances, or \$2,021,581 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,433,969, or 63% of the total general fund expenditures, not including transfers out.
- The City's total bonded debt not including the component units' activities decreased by \$424,307 during the current fiscal year. No significant new debt was issued this year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the city council, general government, public safety, public works, health and welfare, community development, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Local Development Finance Authority and the Boyne City Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 1-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, Fire, Ambulance, and Vibrant Small Cities Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 4-8 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire, Water and Wastewater Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Wastewater Funds, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 9-12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-33 of this report.

Other information. The required supplementary information as well as the combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 40-49 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,037,537 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

City of Boyne City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,973,589	\$2,712,712	\$1,457,046	\$ 1,623,024	\$ 5,430,635	\$ 4,335,736
Capital assets	4,919,712	4,821,671	14,532,882	14,300,300	19,452,594	19,121,971
Total assets	8,893,301	7,534,383	15,989,928	15,923,324	24,883,229	23,457,707
Long-term liabilities						
outstanding	431,765	597,301	9,121,497	9,445,018	9,553,262	10,042,319
Other liabilities	393,992	248,499	(101,562)	269,195	292,430	517,694
Total liabilities	825,757	845,800	9,019,935	9,714,213	9,845,692	10,560,013
Net assets						
Invested in capital assets						
net of related debt	5,550,265	4,377,700	5,431,896	4,877,902	10,982,161	9,255,602
Restricted	10,648	6,990	266,530	306,530	277,178	313,520
Unrestricted	2,506,631	2,303,893	1,271,567	1,024,679	3,778,198	3,328,572
Total net assets	\$ 8,067,544	\$6,688,583	\$6,969,993	\$ 6,209,111	\$15,037,537	\$ 12,897,694

A portion of the City's net assets (1.84%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (25.13% or \$3,778,537) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$2,139,843 during the current fiscal year. A substantial portion of this increase came from federal grants for infrastructure and utility improvements.

Following is a comparison of the City's changes in net assets for the current and prior years:

City of Boyne City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2007	2007
Revenues						
Program Revenues						
Charges for services	\$ 956,701	\$ 957,963	\$ 1,539,551	\$ 1,501,536	\$ 2,496,252	\$ 2,459,499
Operating grants and contributions	782,212	722,531	0	0	782,212	722,531
Capital Grants and Contributions	269,510	81,771	726,729	307,013	996,239	388,784
General revenue						
Property taxes	2,930,801	2,824,860	0	0	2,930,801	2,824,860
Grants and contributions not restricted to specific programs	341,642	350,987	0	0	341,642	350,987
Other	91,476	75,886	39,205	36,787	130,681	112,673
Total revenue	5,372,342	5,013,998	2,305,485	1,845,336	7,677,827	6,859,334
Expenses						
City commission	16,438	14,330	0	0	16,438	14,330
General government	1,397,874	1,328,602	0	0	1,397,874	1,328,602
Public safety	849,557	863,291	0	0	849,557	863,291
Public works	852,260	1,308,726	0	0	852,260	1,308,726
Health and welfare	553,744	426,117	0	0	553,744	426,117
Recreation and cultural	281,866	256,321	0	0	281,866	256,321
Other	24,427	74,244	0	0	24,427	74,244
Interest on long- term debt	17,215	23,950	0	0	17,215	23,950
Wastewater and water	0	0	1,544,603	2,695,665	1,544,603	2,695,665
Total expenses	3,993,381	4,295,581	1,544,603	2,695,665	5,537,984	6,991,246
Increase/(Decrease) in net assets	1,378,961	718,417	760,882	(850,329)	2,139,843	(131,912)
Net assets -						
Beginning of year	6,688,583	5,970,166	6,209,111	7,059,440	12,897,694	13,029,606
End of year	\$ 8,067,544	\$ 6,688,583	\$ 6,969,993	\$ 6,209,111	\$ 15,037,537	\$ 12,897,694

Governmental activities: Governmental activities increased the City's net assets by 1,378,961. Key elements of this increase are as follows:

Property tax collections increased \$105,941 and expenditures decreased by \$302,200.

Operating and capital grants increased a combined total of \$247,420.

Interest earnings increased \$27,484 due to more preferable investment rates available to the City.

Business-type activities: Business-type activities increased the City's net assets by \$760,882. Much of this increase was due to an increase in capital grants of \$419,716.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,116,327, an increase of \$17,932 in comparison with the prior year. Approximately \$2,021,581 constitutes *unreserved fund balance*, which is available for use at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for specific purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance in the General Fund of \$1,502,767 had a balance of \$1,433,969 that was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 63% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$2,582 during the current fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$1,271,567 with capital assets net of related debt of \$5,431,896 and restricted net assets of \$266,530. The Wastewater and Water Funds had an increase in net assets of \$760,882. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

The original expenditures budgeted for the fiscal year end 2008 budget were \$2,640,824. The amended expenditures were \$2,370,475. Actual expenditures were \$2,272,424, a positive variance of \$98,051 from the amended budget.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2008, amounted to \$20,374,330 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total net increase in the City's investment in capital assets for the current fiscal year was 6.5%.

Major capital asset events during the current fiscal year included the following:

- The near completion of a million dollar downtown enhancement project.
- Approximately \$980,000 of street reconstruction.
- The completion of \$762,000 of water and wastewater system improvements.
- Various equipment purchases.

Additional information on the City's capital assets can be found in Note III. C on pages 23-26 of this report.

City of Boyne City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 921,736	\$ 921,736	\$ 0	\$ 0	\$ 921,736	\$ 921,736
Land improvements	418,685	459,415	0	0	418,685	459,415
Infrastructure	2,534,989	1,236,000	0	0	2,534,989	1,236,000
Buildings, structures and systems	744,231	785,044	14,519,758	14,277,762	15,263,989	15,062,806
Equipment	1,201,313	1,387,837	13,124	22,538	1,214,437	1,410,375
Furniture and Fixtures	20,494	31,639	0	0	20,494	31,639
Total	\$ 5,841,448	\$ 4,821,671	\$ 14,532,882	\$ 14,300,300	\$ 20,374,330	\$ 19,121,971

Note Payable Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt and notes payable outstanding of \$9,384,274 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$633,678.

City of Boyne City's Outstanding Debt
(general obligation and revenue bonds)

The City's primary government has \$9,384,274 in long-term debt. The breakdown of this debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General						
obligation bonds	\$ 105,000	\$ 200,000	\$ 9,093,091	\$ 9,422,398	\$ 9,198,091	\$ 9,622,398
Fire Truck	186,183	243,971	0	0	186,183	243,971
Total net debt	<u>\$ 291,183</u>	<u>\$ 443,971</u>	<u>\$ 9,093,091</u>	<u>\$ 9,422,398</u>	<u>\$ 9,384,274</u>	<u>\$ 9,866,369</u>

The City and Component Units total debt decreased by \$643,119 during the current fiscal year, with only \$95,693 of new debt issued in the Wastewater Fund and \$60,000 in the Downtown Development Authority.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total equalized valuation. The current debt limitation for the City is \$19,826,270, which is significantly greater than the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 27-30 of this report.

Economic Factors and Next Year's Budget Considerations

In early October 2008 when this letter was written, the economic outlook for the nation and the world is more guarded than it has been at any time since the great depression, nearly sixty years ago. Several leading financial institutions around the world that a few months ago were seen as pillars of strength have either gone out of business or have had to be bailed out by other firms or national or international efforts. What we had been dealing with in Michigan for the past few years now appears to have been a leading edge in a front of national and international financial uncertainty and distress. Unlike last year when mainly just the housing and automotive industries were in distress economic weakness has now spread across to cover many more segments of the economy. Last year's early signs of trouble in the credit industry have swept and shocked the entire world. No longer is the talk about the promise of the national economy leading Michigan out of its economic weaknesses, as it has been for over 5 years, but just how deep and how long these current worldwide weaknesses and uncertainty will continue.

If there is a positive side to all this negative news it is that, given Michigan's longer term financial challenges, the State finds itself in a relatively more stable financial situation than several other states that are just beginning to have to deal with shrinking revenues. Michigan's hard earned experience in dealing with tight economic times is serving it well in the current situation. The State budget process this past year was one of the smoothest and least drama filled in recent years. The budget was basically completed on time. This was due in large part to the changes made to both State

revenues and expenditures the year before, when things did not go so well. But make no mistake about it, things in Michigan are tough and it appears that things will be even tougher in the year ahead.

The state of the national and state budgets is continuing to cause difficulties for local government. This is seen most directly on the City in the State of Michigan's cuts in state shared revenues. What the state provides to communities in revenue sharing throughout the state is much less than what they previously committed to do. While this year's revenue sharing saw the first proposed increase in several years, we are still losing ground. Given what is going on in the world around us, I anticipate that the best we can hope for in terms of revenue sharing in the coming year is a continuation of current funding levels. Given the overall economic situation, even this may be an optimistic outlook. Since last year the local real estate market has softened further. Foreclosures are now being heard of much more frequently; more properties are on the market and the prices they are commanding in many cases are reduced from a few years ago. This has potential negative implications for future local property tax collections. Increases in this major area of City revenues may be less than what we have experienced in recent years or may actually turn negative in the year ahead. Despite weakness in the economy, Boyne is faring much better than most communities. We are well positioned to ride out an economic storm and be among the first to feel the effects of a recovery. The investments we have made in our community are and will continue to serve us well in the years ahead. Right now we are in more of a holding pattern than we were at this time last year. The levels of growth appear to have slowed down to a trickle. Old projects have been brought to completion but new or proposed projects are facing greater uncertainty. Two waterfront developments in Boyne City that were on the books at this time last year have either moved forward very slowly or have disappeared completely. While something significant may indeed happen at one or more of these sights at some point in the future, it is not anything we should be counting on to boost the City's overall revenues. Business in our downtown continued to hold its own with no major losses and some with major reinvestment, such as the 220 South Lake Street restaurant, throughout the summer. We are keeping a close eye on how they will be doing in the months ahead. Our industrial base, especially some of those companies associated with the auto industry continue to face significant challenges. We saw significant layoffs at Lexamar with nearly 100 people losing their jobs this past summer and have reached out to the company in an effort to help them keep their doors open in the long term. Fortunately the City's Creating Entrepreneurial Communities efforts have been taking hold over the past year to help encourage new and existing businesses to locate in Boyne and become successful. Boyne is at the forefront of these economic gardening efforts and it will take time to determine how much fruit these efforts bear. Therefore the revenue forecast for the coming year has to be characterized as the most guarded that it has been in recent years.

In addition to the guarded revenue forecast, the City continues to be faced with significant expenditure increases, especially in our insurance coverage, specifically health related insurances. Although this too is a national issue, it does not minimize the impact on the City's cost of doing business. The City continues to move forward with its investments in its own long-term health by making sure the necessary infrastructure is in place to meet current and future needs. This past year again focused on major improvements to the infrastructure systems. Building on the recent improvements to the City's water and sewer systems the City was successful in getting and completing two major matching Community Development Block Grants that literally rebuilt several major streets in our downtown. The entire width of the streets, everything from building face to building has been replaced. This includes water, sanitary sewer, and storm drain lines below the streets, to the trees, streetlights, and sidewalks. We were able to leverage local dollars by using the grants to complete projects that the community has been requesting for nearly a decade. Additional projects using additional grant dollars will be undertaken in the year ahead.

The City is fortunate to have built up significant unrestricted net assets of \$3,778,198. In a worst-case scenario, these funds provide the City both the time and the means to weather most unexpected challenges. It should be noted that there has been an increase in demand for improvements to most of the City's infrastructure systems. Those demands have recently been addressed in the City's water system with significant production, storage and distribution improvements and by improvements to the City's sanitary sewer system through the construction of a new treatment plant. This project has been financed with low-rate financing from the State through their SRF program. These improvements are paid for through increased user fees (also known as rates) and grants.

Other areas needing attention include the City's road and sidewalk systems. Current funding takes care of basic maintenance but does not provide for significant amounts of long-term improvements in the overall systems. To better address these needs the City may have to dedicate additional sources of funding, which could include a dedicated millage for such improvements and increased use of special assessments.

The City is continuing to look into making improvements to its marina and boat launch facilities to both improve the long-term economic viability of its commercial district and provide the necessary mass to allow the marina to become self-sustaining. It is anticipated that this would be financed through both grant funding and user fees. After an operational financial plan is established, a decision will be made to determine the feasibility of a marina expansion.

Still further, the City has studied its own space needs and appropriate locations for its departments. That investigation has resulted in an estimated potential of over five million dollars of prospective improvements. The sources of funds to undertake these projects have not yet been determined. The timing of all these projects and objectives will need to be monitored, and adjusted as needed, in light of current and expected economic conditions.

While there are many challenges, the City is blessed with many assets and resources to draw on, including its people and our natural environment. The City's recognition by the State as one of their first four Michigan Main Street Communities has been producing dividends in making sure that our original business core remains vital in the years ahead. It is, at least in part, through our Main Street Program that we were successful in obtaining three major grants from the State. This program will help insure that Boyne's downtown has the capacities and features to attract and serve current and future businesses well for years to come. Boyne's location, both in northern Michigan and on the waterfront of Lake Charlevoix, is keeping us a much desired location and is helping to insure the long-term success of the community.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City Hall, 319 North Lake Street, Boyne City, Michigan 49712 or via email at mcain@boynecity.com.

CITY OF BOYNE CITY

STATEMENT OF NET ASSETS

APRIL 30, 2008

	Primary Government			
	Governmental	Business-type		Component
	Activities	Activities	Total	Units
ASSETS				
Cash and cash equivalents	\$ 2,299,822	\$ 632,390	\$ 2,932,212	\$ 1,069,648
Receivables	437,967	495,215	933,182	125,778
External parties - fiduciary funds	202,712	14,757	217,469	0
Inventory	44,826	11,146	55,972	0
Prepaid items and other assets	66,526	0	66,526	17,668
Restricted cash and cash equivalents	0	266,530	266,530	0
Bond issuance costs	0	37,008	37,008	0
Land	921,736	0	921,736	1,084,687
Depreciable capital assets, net	4,919,712	14,532,882	19,452,594	4,445,094
Total assets	8,893,301	15,989,928	24,883,229	6,742,875
LIABILITIES				
Accounts payable and accrued expenses	233,454	29,690	263,144	115,289
Accrued interest payable	538	16,500	17,038	0
Customer deposits	0	12,248	12,248	0
Security deposits payable	0	0	0	31,793
Deferred revenue	0	0	0	13,297
Interfund Balances	160,000	(160,000)	0	0
Noncurrent liabilities				
Due within one year	196,173	442,895	639,068	141,510
Due in more than one year	235,592	8,678,602	8,914,194	664,311
Total liabilities	825,757	9,019,935	9,845,692	966,200
NET ASSETS				
Invested in capital assets, net of related debt	5,550,265	5,431,896	10,982,161	4,729,092
Restricted for				
Debt service	10,648	266,530	277,178	0
Unrestricted	2,506,631	1,271,567	3,778,198	1,047,583
Total net assets	\$ 8,067,544	\$ 6,969,993	\$ 15,037,537	\$ 5,776,675

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2008

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
City commission	\$ 16,438	\$ 0	\$ 0	\$ 0	\$ (16,438)
General government	1,397,874	137,321	337,481	0	(923,072)
Public safety	849,557	553,562	21,981	10,000	(264,014)
Public works	852,260	265,818	419,718	259,510	92,786
Health and welfare	553,744	0	0	0	(553,744)
Recreation and cultural	281,866	0	3,032	0	(278,834)
Other	24,427	0	0	0	(24,427)
Interest on long-term debt	17,215	0	0	0	(17,215)
Total governmental activities	3,993,381	956,701	782,212	269,510	(1,984,958)
Business-type activities					
Wastewater and water	1,544,603	1,539,551	0	726,729	721,677
Total primary government	\$ 5,537,984	\$ 2,496,252	\$ 782,212	\$ 996,239	\$ (1,263,281)
Component units					
Downtown Development Authority	\$ 299,310	\$ 0	\$ 119,643	\$ 430,399	\$ 250,732
Local Development Finance Authority	71,975	0	0	0	(71,975)
Boyne City Housing Commission	807,237	225,012	471,309		(110,916)
Total component units	\$ 1,178,522	\$ 225,012	\$ 590,952	\$ 430,399	\$ 67,841

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (1,984,958)	\$ 721,677	\$ (1,263,281)	\$ 67,841
General revenues				
Property taxes	2,930,801	0	2,930,801	522,648
Grants and contributions not restricted to specific programs	341,642	0	341,642	0
Unrestricted investment earnings	65,203	37,719	102,922	35,161
Other	26,273	1,486	27,759	88,880
Total general revenues	3,363,919	39,205	3,403,124	646,689
Changes in net assets	1,378,961	760,882	2,139,843	714,530
<u>Net assets, beginning of year</u>	<u>6,688,583</u>	<u>6,209,111</u>	<u>12,897,694</u>	<u>5,062,145</u>
<u>Net assets, end of year</u>	<u>\$ 8,067,544</u>	<u>\$ 6,969,993</u>	<u>\$ 15,037,537</u>	<u>\$ 5,776,675</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS

APRIL 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
ASSETS			
Cash and cash equivalents	\$ 410,062	\$ 160,000	\$ 205
Accounts receivable	174,806	0	0
Due from other funds	918,046	0	0
Due from other governmental units	90,906	35,400	13,908
Inventory	0	0	0
Prepaid items	66,526	0	0
Total assets	<u>\$ 1,660,346</u>	<u>\$ 195,400</u>	<u>\$ 14,113</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 119,848	\$ 3,787	\$ 9,329
Accrued expenses	28,417	2,483	4,784
Due to other funds	0	0	0
Interfund advances	0	160,000	0
Deferred revenue	9,314	0	0
Total liabilities	<u>157,579</u>	<u>166,270</u>	<u>14,113</u>
Fund balances			
Reserved for debt service	0	0	0
Reserved for inventory	0	0	0
Reserved for prepaid items	66,526	0	0
Reserved for Cemetery Improvements	0	0	0
Unreserved, designated for			
Historical society	2,272	0	0
Unreserved, undesignated reported in:			
General fund	1,433,969	0	0
Special revenue funds	0	29,130	0
Total fund balances	<u>1,502,767</u>	<u>29,130</u>	<u>0</u>
Total liabilities and fund balances	<u>\$ 1,660,346</u>	<u>\$ 195,400</u>	<u>\$ 14,113</u>

The accompanying notes are an integral part of these financial statements.

Fire	Ambulance	Vibrant Small Cities Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 332,628	\$ 7,661	\$ 721,161	\$ 155,859	\$ 1,787,576
0	52,698	0	24,813	252,317
0	0	0	5,827	923,873
37,260	8,055	0	0	185,529
0	0	0	11,465	11,465
0	0	0	0	66,526
\$ 369,888	\$ 68,414	\$ 721,161	\$ 197,964	\$ 3,227,286
\$ 15,818	\$ 15,582	\$ 0	\$ 13,696	\$ 178,060
0	1,620	0	415	37,719
0	0	721,161	0	721,161
0	0	0	0	160,000
0	0	0	4,705	14,019
15,818	17,202	721,161	18,816	1,110,959
0	0	0	10,648	10,648
0	0	0	11,465	11,465
0	0	0	0	66,526
0	0	0	3,835	3,835
0	0	0	0	2,272
0	0	0	0	1,433,969
354,070	51,212	0	153,200	587,612
354,070	51,212	0	179,148	2,116,327
\$ 369,888	\$ 68,414	\$ 721,161	\$ 197,964	\$ 3,227,286

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

APRIL 30, 2008

Fund balances - total governmental funds	\$ 2,116,327
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets	8,585,026
Deduct - accumulated depreciation	(3,048,814)
Other assets are not available to pay for current period expenditures and, therefore, are deferred or not reported in the funds.	14,019
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service fund	826,121
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	(105,000)
Deduct - notes payable	(186,183)
Deduct - accrued interest on notes payable	(538)
Deduct - compensated absences and other long-term liabilities	<u>(133,414)</u>
Net assets of governmental activities	<u>\$ 8,067,544</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
APRIL 30, 2008**

	General	Major Street	Local Street	Fire	Ambulance	Vibrant Small Cities Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 2,824,589	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 106,212	\$ 2,930,801
Federal revenues	0	78,230	181,280	0	10,000	0	0	269,510
State revenues	350,472	266,220	122,208	0	0	0	30,750	769,650
Local revenues	337,481	0	0	0	13,151	0	0	350,632
Charges for services	191,410	0	0	199,106	337,220	0	235,491	963,227
Contributions	1,715	0	0	0	1,317	0	540	3,572
Interest and rentals	61,758	30	38	6,350	7	0	6,473	74,656
Other revenues	16,770	0	0	0	950	0	0	17,720
Total revenues	3,784,195	344,480	303,526	205,456	362,645	0	379,466	5,379,768
Expenditures								
Current								
Legislative	16,438	0	0	0	0	0	0	16,438
General government	1,373,336	0	0	0	0	0	0	1,373,336
Public safety	596,820	0	0	199,755	0	0	0	796,575
Public works	5,926	983,060	912,937	0	0	0	281,226	2,183,149
Health and welfare	1,175	0	0	0	542,246	0	0	543,421
Recreation and cultural	254,254	0	0	0	0	0	0	254,254
Other expenditures	24,474	0	0	0	0	0	0	24,474
Debt service								
Principal	0	0	0	57,788	0	0	95,000	152,788
Interest and fiscal charges	0	0	0	8,796	0	0	8,605	17,401
Total expenditures	2,272,423	983,060	912,937	266,339	542,246	0	384,831	5,361,836
Excess (deficiency) of revenues over (under) expenditures	1,511,772	(638,580)	(609,411)	(60,883)	(179,601)	0	(5,365)	17,932
Other financing sources (uses)								
Transfers in	0	661,608	602,601	55,000	106,500	0	88,645	1,514,354
Transfers out	(1,514,354)	0	0	0	0	0	0	(1,514,354)
Total other financing sources (uses)	(1,514,354)	661,608	602,601	55,000	106,500	0	88,645	0
Net changes in fund balances	(2,582)	23,028	(6,810)	(5,883)	(73,101)	0	83,280	17,932
Fund balances, beginning of year	1,505,349	6,102	6,810	359,953	124,313	0	95,868	2,098,395
Fund balances, end of year	\$ 1,502,767	\$ 29,130	\$ 0	\$ 354,070	\$ 51,212	\$ 0	\$ 179,148	\$ 2,116,327

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2008

Net change in fund balances - total governmental funds	\$ 17,932
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Amounts reported for governmental activities in the statement of activities are different because

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,526)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,452,714
Deduct - depreciation expense	(327,024)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	152,788
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In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the capital assets sold net of accumulated depreciation.

	(900)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the governmental funds is reported with governmental activities.

	76,388
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	186
Add - decrease in the accrual for compensated absences	13,403

Change in net assets of governmental activities	<u><u>\$ 1,378,961</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
APRIL 30, 2008

	Business-type Activity-Enterprise Funds			Governmental Activity
	Major Funds			Internal Service - Motor Pool
	Wastewater	Water	Totals	
Assets				
Current assets				
Cash and cash equivalents	\$ 609,155	\$ 23,235	\$ 632,390	\$ 512,246
Accounts receivable	281,398	153,817	435,215	121
Due from other funds	169,592	5,165	174,757	0
Inventory	2,614	8,532	11,146	33,361
Total current assets	1,062,759	190,749	1,253,508	545,728
Restricted cash and cash equivalents				
Bond reserve	223,359	0	223,359	0
Bond and interest redemption	43,171	0	43,171	0
Total restricted cash and cash equivalents	266,530	0	266,530	0
Noncurrent assets				
Bond issuance costs	37,008	0	37,008	0
Note Receivable	60,000	0	60,000	0
Property and equipment - net	11,471,572	3,061,310	14,532,882	305,236
Total noncurrent assets	11,568,580	3,061,310	14,629,890	305,236
Total assets	12,897,869	3,252,059	16,149,928	850,964
Liabilities				
Current liabilities				
Accounts payable	17,066	5,186	22,252	14,238
Deposits payable	7,747	4,501	12,248	0
Accrued expenses	2,750	4,688	7,438	3,438
Accrued interest payable	13,500	3,000	16,500	0
Current portion of bonds payable and accrued compensated absences	355,000	87,895	442,895	0
Total current liabilities	396,063	105,270	501,333	17,676
Noncurrent liabilities				
Accrued compensated absences	6,241	14,270	20,511	7,167
Bonds payable, net of current portion	7,318,091	1,340,000	8,658,091	0
Total Noncurrent liabilities	7,324,332	1,354,270	8,678,602	7,167
Total liabilities	7,720,395	1,459,540	9,179,935	24,843
Net assets				
Investment in capital assets, net of related debt	3,798,481	1,633,415	5,431,896	305,236
Restricted for				
Bond reserve	223,359	0	223,359	0
Bond and interest redemption	43,171	0	43,171	0
Unrestricted	1,112,463	159,104	1,271,567	520,885
Total net assets	\$ 5,177,474	\$ 1,792,519	\$ 6,969,993	\$ 826,121

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED APRIL 30, 2008

	Business-type Activity-Enterprise Funds			Governmental Activity Internal Service - Motor Pool
	Major Funds			
	Wastewater	Water	Totals	
Operating revenues				
Charges for services	\$ 941,546	\$ 579,544	\$ 1,521,090	\$ 353,126
Operating expenses				
Personnel services	132,082	182,930	315,012	68,280
Contracted services	89,665	71,731	161,396	15,050
Supplies and materials	47,654	36,378	84,032	53,137
Repairs and maintenance	61,235	41,253	102,488	48,313
Depreciation and amortization	299,423	236,306	535,729	115,729
Utilities	107,391	31,979	139,370	21,165
Total operating expenses	737,450	600,577	1,338,027	321,674
Operating income (loss)	204,096	(21,033)	183,063	31,452
Nonoperating revenues (expenses)				
Interest income	33,110	4,609	37,719	13,297
Interest expense	(169,301)	(37,275)	(206,576)	0
Rent	0	0	0	21,500
Connection Fees	8,603	9,858	18,461	0
Contributed Capital - Boyne Mountain	330,000	0	330,000	0
Other revenue	743	743	1,486	1,077
Gain on sale of equipment	0	0	0	9,062
Total nonoperating revenues (expenses)	203,155	(22,065)	181,090	44,936
Income (Loss) before capital grants and contributions	407,251	(43,098)	364,153	76,388
Capital grants and contributions	283,077	113,652	396,729	0
Change in net assets	690,328	70,554	760,882	76,388
Net assets, beginning of year	4,487,146	1,721,965	6,209,111	749,733
Net assets, end of year	\$ 5,177,474	\$ 1,792,519	\$ 6,969,993	\$ 826,121

The accompanying notes are an integral part of these financial statements

**CITY OF BOYNE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED APRIL 30, 2008**

	Business-type Activity-Enterprise Funds			Governmental Activity
	Major Funds			Internal
	Wastewater	Water	Totals	Service-Motor Pool
Cash flows from operating activities				
Cash received from customers	\$ 793,793	\$ 615,966	\$ 1,409,759	\$ 0
Cash received from interfund services provided	0	0	0	353,190
Cash payments to employees	(130,708)	(177,687)	(308,395)	(65,651)
Cash payments to suppliers for goods and services	(463,041)	(235,333)	(698,374)	(153,219)
Net cash provided by operating activities	200,044	202,946	402,990	134,320
Cash flows from non-capital financing activities				
Rental income	0	0	0	21,500
Miscellaneous income	743	743	1,486	1,077
Net cash provided by non-capital financing activities	743	743	1,486	22,577
Cash flows from capital and related financing activities				
Purchase of capital assets	(450,761)	(311,198)	(761,959)	(10,716)
Sale of capital assets	0	0	0	9,062
Proceeds from capital grants	283,077	113,652	396,729	0
Capital contributions	330,000	0	330,000	0
User contributions	8,603	9,858	18,461	0
Debt proceeds	95,693	0	95,693	0
Principal payments	(350,000)	(75,000)	(425,000)	0
Interest payments	(169,700)	(37,375)	(207,075)	0
Net cash used in capital and related financing activities	(253,088)	(300,063)	(553,151)	(1,654)
Cash flows from investing activities				
Interest income	33,110	4,609	37,719	13,297
Increase in Notes Receivable	(60,000)	0	(60,000)	0
Net cash used in investing activities	(26,890)	4,609	(22,281)	13,297
Net increase (decrease) in cash and cash equivalents	(79,191)	(91,765)	(170,956)	168,540
Cash and cash equivalents, beginning of year	954,876	115,000	1,069,876	343,706
Cash and cash equivalents, end of year	\$ 875,685	\$ 23,235	\$ 898,920	\$ 512,246

The accompanying notes are an integral part of these financial statements.

**CITY OF BOYNE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED APRIL 30, 2008**

	Business-type Activity-Enterprise Funds			Governmental Activity Internal
	Major Funds			Service-Motor
	Wastewater	Water	Totals	Pool
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 204,096	\$ (21,033)	\$ 183,063	\$ 31,452
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	299,423	236,306	535,729	115,729
Changes in assets and liabilities which provided (used) cash				
Accounts receivable	(23,301)	7,868	(15,433)	64
Due from other governments	47,227	27,907	75,134	0
Due from other funds	(169,592)	(5,165)	(174,757)	0
Inventory	(2,087)	5,812	3,725	(16,024)
Accounts payable and accrued liabilities	(155,357)	(48,064)	(203,421)	3,099
Deposits payable	(365)	(685)	(1,050)	0
Net cash provided by operating activities	\$ 200,044	\$ 202,946	\$ 402,990	\$ 134,320

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS

APRIL 30, 2008

	Agency Funds
	<hr/>
Assets	
Cash and cash equivalents	\$ 243,409
Accounts Receivable	<hr/> 3,175
Total assets	<hr/> \$ 246,584 <hr/>
Liabilities	
Deposits payable	\$ 12,770
Due to other funds	217,469
Due to other governmental units	<hr/> 16,345
Total liabilities	<hr/> \$ 246,584 <hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Boyne City* (the "City") is directed by a five member City Commission and a mayor elected by the City Commission. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general administrative services and water and sewage disposal services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

Blended Component Units

The City has no blended component units.

Discretely Presented Component Units

Downtown Development Authority (the "DDA") – The City Manager with approval of the City Commission appoints the members of the governing board of the Authority. The City also has the ability to significantly influence the operations of the Downtown Development Authority. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

Local Development Finance Authority (the "LDFA") – The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Local Development Finance Authority. A complete financial statement of the Local Development Finance Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

Boyne City Housing Commission - The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Boyne City Housing Commission. A complete financial statement for the Boyne City Housing Commission can be obtained from Sheila Smith, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan 49712.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and

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intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Fire Fund* accounts for the activities of the City's fire department.

The *Ambulance Fund* accounts for the activities of the City's ambulance department.

The *Vibrant Small Cities Initiative Fund* accounts for the acquisition of capital assets or construction of major capital projects not being furnished by proprietary or nonexpendable trust funds.

The City reports the following enterprise funds:

The *Water and Wastewater Funds* are the City's major proprietary funds. They account for the activities of the City's water distribution and the sewage disposal and treatment system.

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Additionally, the City reports the following fund types:

The Internal Service Fund accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions, cost of building rent and various other functions of the government.

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Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Wastewater Enterprise Funds and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

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The City's deposit and investment policy is in accordance with statutory authority

Investments are stated at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The ambulance fund receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days.

3. *Inventory*

Inventory held by the general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets have been recorded since the adoption of the Governmental Accounting Standards Board Statement Number 34. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

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Assets	Years
Buildings	20-50
Public domain infrastructure	20
System infrastructure	20-50
Vehicles	5-10
Equipment	5-20

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than the third week in April of each year, the City Commission shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City Commission is the functional level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a City Commissioners' resolution.

B. Excess of expenditures over appropriations

For the year ended April 30, 2008, the General Fund's legal and accounting expenditures exceeded appropriations by \$2,551, the planning expenditures exceeded appropriations by \$4,100 and the sidewalk construction expenditures exceeded appropriations by \$126. The Local Street Fund's highway and streets expenditures exceeded appropriations by \$16,608. These over expenditures were funded by greater than anticipated revenues in the funds and the use of prior year fund balances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Investment rate risk. The City minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirement.

Foreign currency risk. The City is not authorized to invest in investments, which have this type of risk.

Credit risk. The City minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 9 of the

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City's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with Section 7 of the City's investment policy.

Concentration of credit risk. The City minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of April 30, 2008, \$3,216,328 of the government's bank balance of \$3,444,612 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date \$992,136 of the discretely presented component unit's bank balance of \$1,092,136 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered, or securities held by the City or the City's agent in the City's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the City's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the City's name. At year end, the City held no investments.

A reconciliation of cash and investments follows:

	Primary Government	Component Units
Carrying amount of Deposits	\$ 3,442,151	\$ 1,069,648
Government-Wide Statement of Net Assets		
Cash and cash equivalents	2,932,212	1,069,648
Restricted cash and cash equivalents	266,530	0
Statement of Fiduciary Net Assets		
Cash and cash equivalents	243,409	0
Total	\$ 3,442,151	\$ 1,069,648

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B. Receivables

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	Accounts	Other Governments	Total
Primary government			
General	\$ 174,806	\$ 90,906	\$ 265,712
Major streets	0	35,400	35,400
Local streets	0	13,908	13,908
Fire	0	37,260	37,260
Ambulance	52,698	8,055	60,753
Cemetery	4,975	0	4,975
Marina	12,812	0	12,812
Airport	7,026	0	7,026
Wastewater	281,398	60,000	341,398
Water	153,817	0	153,817
Motor pool	121	0	121
Boyne Senior Center	3,175	0	3,175
Total Primary government	<u>\$ 690,828</u>	<u>\$ 245,529</u>	<u>\$ 936,357</u>
Component units			
Boyne City Housing Commission	<u>\$ 125,778</u>	<u>\$ 0</u>	<u>\$ 125,778</u>

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C. Capital assets

Primary Government

Capital asset activity in the governmental and business-type activities was as follows for the year ended April 30, 2008:

	May 1, 2007	Increase	Decrease	April 30, 2008
Governmental activities				
Capital assets not being depreciated - land	\$ 921,736	\$ 0	\$ 0	\$ 921,736
Capital assets being depreciated				
Land improvements	1,288,566	20,962	0	1,309,528
Infrastructure	1,394,957	1,392,224	0	2,787,181
Buildings and structures	1,544,104	0	0	1,544,104
Equipment	3,385,863	52,009	(82,961)	3,354,911
Furniture and fixtures	137,545	0	0	137,545
Total capital assets being depreciated	7,751,035	1,465,195	(82,961)	9,133,269
Less accumulated depreciation for				
Land improvements	(829,151)	(61,692)	0	(890,843)
Infrastructure	(158,957)	(93,235)	0	(252,192)
Buildings and structures	(759,060)	(40,813)	0	(799,873)
Equipment	(1,998,026)	(235,868)	80,296	(2,153,598)
Furniture and fixtures	(105,906)	(11,145)	0	(117,051)
Total accumulated depreciation	(3,851,100)	(442,753)	80,296	(4,213,557)
Total capital assets being depreciated, net	3,899,935	1,022,442	(2,665)	4,919,712
Governmental activities capital assets, net	\$ 4,821,671	\$1,022,442	\$ (2,665)	\$ 5,841,448

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	May 1, 2007	Increase	Decrease	April 30, 2008
Business-type activities				
Capital assets being depreciated				
Water system plant	\$ 5,708,575	\$ 311,198	\$ 0	\$ 6,019,773
Sanitary sewer disposal	12,687,111	450,761	0	13,137,872
Equipment	352,638	0	0	352,638
Total capital assets being depreciated	<u>18,748,324</u>	<u>761,959</u>	<u>0</u>	<u>19,510,283</u>
Less accumulated depreciation for				
Water system plant	(2,732,041)	(231,862)	0	(2,963,903)
Sanitary sewer disposal	(1,385,883)	(288,101)	0	(1,673,984)
Equipment	(330,100)	(9,414)	0	(339,514)
Total accumulated depreciation	<u>(4,448,024)</u>	<u>(529,377)</u>	<u>0</u>	<u>(4,977,401)</u>
Total capital assets being depreciated, net	<u>14,300,300</u>	<u>232,582</u>	<u>0</u>	<u>14,532,882</u>
Business-type activities capital assets, net	<u>\$ 14,300,300</u>	<u>\$ 232,582</u>	<u>\$ 0</u>	<u>\$ 14,532,882</u>

Depreciation expense was charged to functions/programs of the primary government as follows

Governmental activities

General government	\$ 34,771
Public safety	104,319
Public works	140,937
Health and welfare	10,323
Recreation and cultural	36,674
Capital assets held by the City's internal service fund charged to the various functions based on their usage of the assets	<u>115,729</u>
Total depreciation expense – governmental activities	<u>\$442,753</u>

Business-type activities

Wastewater	293,071
Water	<u>236,306</u>
Total depreciation expense – business-type activities	<u>\$529,377</u>

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Discretely presented component units

Capital asset activity in the component units was as follows:

	May 1, 2007	Increase	Decrease	April 30, 2008
Downtown Development Authority				
Capital assets being depreciated				
Infrastructure	\$ 1,022,573	\$ 1,029,763	\$ 0	\$ 2,052,336
Less accumulated depreciation for				
Infrastructure	<u>(165,858)</u>	<u>(74,970)</u>	<u>0</u>	<u>(240,828)</u>
Total capital assets being depreciated, net	<u>\$ 856,715</u>	<u>\$ 954,793</u>	<u>\$ 0</u>	<u>\$ 1,811,508</u>
Local Development Finance Authority				
Capital assets not being depreciated				
Land	<u>\$ 291,419</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 291,419</u>
Capital assets being depreciated				
Infrastructure	1,997,920	0	0	1,997,920
Less accumulated depreciation for				
Infrastructure	<u>(390,505)</u>	<u>(42,149)</u>	<u>0</u>	<u>(432,654)</u>
Total capital assets being depreciated, net	<u>1,607,415</u>	<u>(42,149)</u>	<u>0</u>	<u>1,565,266</u>
Total capital assets, net	<u>\$ 1,898,834</u>	<u>\$ (42,149)</u>	<u>\$ 0</u>	<u>\$ 1,856,685</u>
Boyne City Housing Commission				
Capital assets not being depreciated				
Land	<u>\$ 793,268</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 793,268</u>
Capital assets being depreciated				
Buildings and structures	3,137,732	10,527	0	3,148,259
Furniture, fixtures and equipment	<u>142,764</u>	<u>5,803</u>	<u>0</u>	<u>148,567</u>
Total capital assets being depreciated	<u>3,280,496</u>	<u>16,330</u>	<u>0</u>	<u>3,296,826</u>
Less accumulated depreciation	<u>(2,095,317)</u>	<u>(135,916)</u>	<u>2,727</u>	<u>(2,228,506)</u>
Total capital assets being depreciated, net	<u>1,185,179</u>	<u>(119,586)</u>	<u>2,727</u>	<u>1,068,320</u>
Total capital assets, net	<u>\$ 1,978,447</u>	<u>\$ (119,586)</u>	<u>\$ 2,727</u>	<u>\$ 1,861,588</u>

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Depreciation expense for the component units was as follows:

Downtown Development Authority	\$ 74,970
Local Development Finance Authority	42,149
Boyne City Housing Commission	<u>135,916</u>
Total depreciation expense – component units	<u><u>\$253,035</u></u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at April 30, 2008, were:

	Interfund Receivables	Interfund Payables
General Fund	\$ 914,871	\$ 0
Special Revenue Fund		
Major Streets Fund	0	160,000
Capital Projects Fund		
Vibrant Small Cities Initiative	0	721,161
Debt Service Funds		
1989 Street Improvements	3,659	0
1989 Water Supply Sewage Disposal System	2,168	0
Enterprise Funds		
Water Fund	5,165	0
Wastewater Fund	169,592	0
Fiduciary Fund		
Current Tax Collection Fund	<u>0</u>	<u>214,294</u>
	<u><u>\$ 1,095,455</u></u>	<u><u>\$ 1,095,455</u></u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Except for the \$160,000 loan from the Wastewater Fund to the Major Street Fund, all interfund balances outstanding at April 30, 2008, are expected to be repaid within one year.

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E. Interfund Transfers

Interfund Transfers as of April 30, 2008

	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General fund	\$ 0	\$ 1,514,354
Major street fund	661,608	0
Local street fund	602,601	0
Fire fund	55,000	0
Ambulance fund	106,500	0
Cemetery fund	88,645	0
1989 Street improvements fund	0	26,911
1989 Water supply sewage disposal system improvements funds	26,911	0
	<u>\$ 1,541,265</u>	<u>\$ 1,541,265</u>

Interfund transfers are used to reallocate unrestricted revenues collected in the General Fund and nonmajor governmental funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term liabilities

General obligation debt. The City issues general obligation bonds and notes payable to provide funds for the acquisition and construction of major capital facilities and vehicles. General obligation bonds have been issued by the component unit on behalf of the primary government. The original amount of general obligation bonds issued in prior years for the items listed below was \$880,000. No general obligation bonds were issued during the current year.

The component units' bonds, notes and loans payable are also general obligations of the City except for the loans payable of the Boyne City Housing Commission. The original amounts of the DDA and LDFA bonds and note payable were \$565,000 and \$360,000, respectively. The loan payable had a maximum loan amount of \$1,300,350. The DDA and LDFA component units' payables were issued by the component units on behalf of the primary government. The loan payable was forgiven at a rate of 50% by the grantor, EDC, because the City met certain grant requirements. It was issued with a zero interest rate. The DDA borrowed \$60,000 from the Wastewater Fund on a ten year note during 2007-2008.

The loans payable of the Boyne City Housing Commission consist of three separate loans payable to various local banks.

The business-type activities bonds are also general obligations of the City. They are reimbursement bonds where the City's expenditures are reimbursed with bond proceeds through the Drinking Water Revolving Fund and State Clean Water Revolving Fund. The amount the City has drawn as of April 30, 2008 for the Drinking Water Revolving Bond was the full amount of \$1,785,000. The amount the City has drawn as of April 30, 2008, for the State

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Clean Water Revolving Bond was \$8,395,000.

General obligation bonds and note payables are direct obligations that pledge the full faith and credit of the City. Bonds are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and notes payable currently outstanding are as follows:

Purpose	Maturity Date	Interest Rates	Amount
Governmental activities			
General government - general obligation bond	11/1/2008	3.00-5.30%	\$ 105,000
General government - Fire truck note payable	4/30/2011	3.61%	186,183
			<u><u>\$ 291,183</u></u>
Business-type activities			
General obligation bond - DWRF	4/1/2023	2.50%	\$ 1,420,000
General obligation bond - SRF	4/1/2013	2.13%	7,673,091
			<u><u>\$ 9,093,091</u></u>
Component Unit - Downtown Development Authority			
General government - general obligation bond	10/1/2009	4.25-7.25%	\$ 135,000
Note payable	4/22/2018	4.25%	60,000
			<u><u>\$ 195,000</u></u>
Component Unit - Local Development Finance Authority			
General government - loan payable	4/30/2015	0.00%	<u><u>\$ 438,678</u></u>
Component Unit - Boyne City Housing Commission			
Bank loan payable	5/14/2009	6.50%	\$ 34,205
Bank loan payable	10/10/2017	5.88%	30,178
Bank loan payable	10/10/2017	4.13%	102,628
			<u><u>\$ 167,011</u></u>

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

Annual debt service requirements to maturity for general obligation debt are as follows:

April 30,	Governmental Activities			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2009	\$ 105,000	\$ 2,783	\$ 59,874	\$ 6,721
2010	0	0	62,035	4,560
2011	0	0	64,274	2,320
Total	\$ 105,000	\$ 2,783	\$ 186,183	\$ 13,601

April 30,	Business-type Activities	
	Bonds Payable	
	Principal	Interest
2009	\$ 435,000	\$ 198,553
2010	445,000	189,009
2011	455,000	179,253
2012	465,000	169,266
2013	475,000	159,066
2014-2018	2,530,000	634,553
2019-2023	2,825,000	344,047
2024-2026	1,463,091	62,035
Total	\$ 9,093,091	\$ 1,935,782

April 30,	Component Units			
	Bonds Payable		Notes & Loans Payable	
	Principal	Interest	Principal	Interest
2009	\$ 65,000	\$ 5,227	\$ 81,431	\$ 10,551
2010	70,000	1,785	82,138	9,709
2011	0	0	82,960	8,826
2012	0	0	83,797	7,899
2013	0	0	84,690	6,720
2014-2017	0	0	250,673	18,804
Total	\$ 135,000	\$ 7,012	\$ 665,689	\$ 62,509

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

Changes in long-term liabilities. Long-term liability activity was as follows:

	May 1, 2007	Additions	Reductions	April 30, 2008	Due Within One Year
Primary Government					
Governmental activities					
General obligation	\$ 200,000	\$ 0	\$ 95,000	\$ 105,000	\$ 105,000
Note payables	243,971	0	57,788	186,183	59,874
Compensated absences	153,330	0	12,748	140,582	31,299
	\$ 597,301	\$ 0	\$ 165,536	\$ 431,765	\$ 196,173
Business-type activities					
General obligation	\$ 9,422,398	\$ 95,693	\$ 425,000	\$ 9,093,091	\$ 435,000
Compensated absences	22,620	5,786	0	28,406	7,895
	\$ 9,445,018	\$ 101,479	\$ 425,000	\$ 9,121,497	\$ 442,895
Component Units					
General obligation	\$ 195,000	\$ 0	\$ 60,000	\$ 135,000	\$ 65,000
Note payables	52,500	60,000	52,500	60,000	0
Loans payable	682,716	0	77,027	605,689	76,510
Compensated absences	29,667	0	24,535	5,132	0
	\$ 959,883	\$ 60,000	\$ 214,062	\$ 805,821	\$ 141,510

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended April 30, 2008, the City carried commercial insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2007 levy were assessed and equalized at \$198,262,699 representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2008 was 16.01 mills, with an additional 0.22 mills levied for water supply sewage disposal debt retirement and 0.378 mills levied for general obligation bond retirement.

Property taxes for the DDA and LDFA are derived from a tax increment financing agreement between the DDA and LDFA and other related taxing districts. Under this arrangement, the DDA and LDFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA and LDFA districts. Property taxes are recognized in the fiscal year in which they are levied.

C. Defined benefit pension plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 1.63% to 10.96% of annual covered payroll. City employees are required to contribute 4.7% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

Annual pension cost

For the year ended April 30, 2008, the City's annual pension cost of \$236,877 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 26 years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
4/30/2006	\$ 215,464	100%	\$ 0
4/30/2007	207,759	100%	0
4/30/2008	236,877	100%	0

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 5,634,556	\$ 6,639,269	\$ 1,004,713	85%	\$ 1,587,233	63%
12/31/2005	5,958,880	7,306,974	1,348,094	82%	1,576,140	86%
12/31/2006	6,330,434	7,544,559	1,214,125	84%	1,417,031	86%

D. Defined contribution pension plan

The City provides pension benefits through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan covers all employees hired after June 2005, except for those employees within the Police department union division or the Housing commission division. All existing employees of the City had the option to participate in this plan as well. However, none elected to do so. The plan provides for an employer contribution of 8% of compensation with no required contribution by the employee. Employer contributions become 100% vested after seven years. For the year ended, April 30, 2008 the City's contribution to the plan was \$17,256.

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2008

E. Housing Commission

The City provides certain administrative services to the Boyne City Housing Commission (the "Commission"). The Commission was created by the City and its governing board is approved by the City, and it is reported as a component unit of the City. Services provided by the City to the Commission are billed at an amount that will approximately recover the City's full cost of providing such services. The basis of billing has been used by the City consistently over the years to determine the amount of revenues and expenditures arising from quasi-external transactions. Total billing for the period amounted to \$258,507 and is reported as revenue in the General Fund. A complete financial statement for the Boyne City Housing Commission can be obtained from Sheila Smith, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan, 49712.

F. Other post-employment benefits

The City provides post-employment health benefits to thirteen members of the Police Officers Union and American Federation of State, County, and Municipal Employees Union at April 30, 2005 for a period of 10 years. The cost for one- person coverage is \$126 per month and two-person coverage is \$265 per month. For the year ended April 30, 2008, the City paid approximately \$4,865 for these benefits.

G. Sale of Future Revenues

For several years, the City has sold its rights to delinquent real property tax revenues and related late payment penalties to the Charlevoix County treasurer. For the 2007 tax roll the City received a lump sum payment of \$153,182 for general operating tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the City will have to repay the county.

CITY OF BOYNE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS GENERAL FUND

APRIL 30, 2008

	Budgeted Amounts		Actual
	Original	Final	
Revenues			
Taxes	\$ 2,889,311	\$ 2,832,367	\$ 2,824,589
State revenues	358,400	352,330	350,472
Local revenues	345,920	345,155	337,481
Charges for services	174,950	200,645	191,410
Contributions	3,050	1,525	1,715
Sale of capital asset	1,000	0	0
Interest and rentals	31,700	45,275	61,758
Other revenues	0	0	16,770
Total revenues	3,804,331	3,777,297	3,784,195
Expenditures			
Legislative			
City commission	19,418	16,760	16,438
General government			
Central administration	542,021	547,160	538,214
Clerk - elections	5,000	5,605	5,605
Legal and accounting	81,500	76,500	79,051
Planning	166,303	107,670	111,770
Assessor	78,400	77,209	73,621
City hall and other city property	327,273	314,369	306,098
Housing commission	290,000	290,000	258,977
Total general government	1,490,497	1,418,513	1,373,336
Public safety			
Police department	629,863	602,482	596,820
Public works			
Sidewalk Construction	68,000	5,800	5,926

CITY OF BOYNE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS GENERAL FUND

APRIL 30, 2008

	Budgeted Amounts		Actual
	Original	Final	
Health and welfare			
Environmental	1,500	1,175	1,175
Recreation and cultural			
Recreation administration	357,740	285,637	251,518
Museum	4,723	2,784	2,736
Total recreation and cultural	362,463	288,421	254,254
Other expenditures			
Other	69,083	37,324	24,475
Total expenditures	2,640,824	2,370,475	2,272,424
Excess (deficiency) of revenues over (under) expenditures	1,163,507	1,406,822	1,511,771
Other financing sources (uses)			
Transfers out	(1,302,955)	(1,380,429)	(1,514,353)
Net change in fund balance	(139,448)	26,393	(2,582)
Fund balance, beginning of year	1,505,349	1,505,349	1,505,349
Fund balance, end of year	\$ 1,365,901	\$ 1,531,742	\$ 1,502,767

CITY OF BOYNE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
MAJOR STREET FUND

APRIL 30, 2008

	Budgeted Amounts		
	Original	Final	Actual
Revenues			
Federal revenues	\$ 120,000	\$ 269,991	\$ 78,230
State revenues	242,700	250,100	266,220
Interest and rentals	100	0	30
Other revenues	20	0	0
Total revenues	362,820	520,091	344,480
Expenditures			
Public works - highways and streets			
Construction	479,566	534,852	513,410
Routine maintenance	186,700	172,730	175,708
Traffic service	39,100	17,735	12,491
Winter maintenance	95,800	153,295	181,291
Administration	103,472	119,807	100,160
Total expenditures	904,638	998,419	983,060
Excess (deficiency) of revenues over (under) expenditures	(541,818)	(478,328)	(638,580)
Other financing sources (uses)			
Transfers in	386,138	478,820	661,608
Net change in fund balance	(155,680)	492	23,028
Fund balance, beginning of year	6,102	6,102	6,102
Fund balance, end of year	\$ (149,578)	\$ 6,594	\$ 29,130

CITY OF BOYNE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS LOCAL STREET FUND

APRIL 30, 2008

	Budgeted Amounts		
	Original	Final	Actual
Revenues			
Federal revenues	\$ 235,930	\$ 235,930	\$ 181,280
State revenues	95,865	115,800	122,208
Interest and rentals	0	0	38
Total revenues	331,795	351,730	303,526
Expenditures			
Public works - highways and streets			
Construction	547,896	441,681	469,825
Routine maintenance	237,900	221,221	218,099
Traffic service	22,800	9,558	6,218
Winter maintenance	99,000	149,000	146,047
Administration	76,700	74,869	72,748
Total expenditures	984,296	896,329	912,937
Excess (deficiency) of revenues over (under) expenditures	(652,501)	(544,599)	(609,411)
Other financing sources (uses)			
Transfers in	652,501	652,501	602,601
Net change in fund balance	0	107,902	(6,810)
Fund balance, beginning of year	6,810	6,810	6,810
Fund balance, end of year	\$ 6,810	\$ 114,712	\$ 0

CITY OF BOYNE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
FIRE FUND

APRIL 30, 2008

	Budgeted Amounts		
	Original	Final	Actual
Revenues			
Charges for services	\$ 186,638	\$ 186,638	\$ 199,106
Interest and rentals	5,500	5,900	6,350
Total revenues	192,138	192,538	205,456
Expenditures			
Public safety	225,800	237,094	199,755
Debt Service			
Principal	57,788	57,788	57,788
Interest and fiscal charges	8,808	8,798	8,796
Total expenditures	292,396	303,680	266,339
Excess (deficiency) of revenues over (under) expenditures	(100,258)	(111,142)	(60,883)
Other financing sources (uses)			
Transfers in	55,000	55,000	55,000
Net change in fund balance	(45,258)	(56,142)	(5,883)
Fund balance, beginning of year	359,953	359,953	359,953
Fund balance, end of year	\$ 314,695	\$ 303,811	\$ 354,070

CITY OF BOYNE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS AMBULANCE FUND

APRIL 30, 2008

	Budgeted Amounts		Actual
	Original	Final	
Revenues			
Federal revenues	\$ 0	\$ 0	10,000
Local revenues	51,100	20,000	13,151
Charges for services	350,140	335,926	337,220
Contributions	5,000	1,500	1,317
Interest and rentals	500	10	7
Other revenues	1,000	900	950
Total revenues	407,740	358,336	362,645
Expenditures			
Health and Welfare	446,968	518,355	542,246
Excess (deficiency) of revenues over (under) expenditures	(39,228)	(160,019)	(179,601)
Other financing sources (uses)			
Transfers in	39,228	75,463	106,500
Net change in fund balance	0	(84,556)	(73,101)
Fund balance, beginning of year	124,313	124,313	124,313
Fund balance, end of year	\$ 124,313	\$ 39,757	\$ 51,212

CITY OF BOYNE CITY, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

APRIL 30, 2008

	Special Revenue Funds				Debt Service Funds		
					1989		
					Water Supply		
					Sewage		
					Disposal		
					System		
	Creative	Cemetery	Marina	Airport	1989	Improvements	Total
Assets	Playground				Street		Nonmajor
					Improvements		Governmental
							Funds
Cash and cash equivalents	\$ 1,904	\$ 44,481	\$ 66,232	\$ 35,388	\$ 3,971	\$ 3,883	\$ 155,859
Due from Other Funds	0	0	0	0	3,659	2,168	5,827
Accounts receivable	0	4,975	12,812	7,026	0	0	24,813
Inventory	0	0	0	11,465	0	0	11,465
Total assets	\$ 1,904	\$ 49,456	\$ 79,044	\$ 53,879	\$ 7,630	\$ 6,051	\$ 197,964
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 0	\$ 41	\$ 3,114	\$ 7,508	\$ 1,099	\$ 1,934	\$ 13,696
Accrued expenses	0	396	0	19	0	0	415
Deferred revenue	0	4,705	0	0	0	0	4,705
Total liabilities	0	5,142	3,114	7,527	1,099	1,934	18,816
Fund balances							
Reserved for debt service	0	0	0	0	6,531	4,117	10,648
Reserved for inventory	0	0	0	11,465	0	0	11,465
Reserved for Cemetery Improvements	0	3,835	0	0	0	0	3,835
Unreserved							
Undesignated	1,904	40,479	75,930	34,887	0	0	153,200
Total fund balances	1,904	44,314	75,930	46,352	6,531	4,117	179,148
Total liabilities and fund balances	\$ 1,904	\$ 49,456	\$ 79,044	\$ 53,879	\$ 7,630	\$ 6,051	\$ 197,964

CITY OF BOYNE CITY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

APRIL 30, 2008

	Special Revenue Funds				Debt Service Funds		
					1989	1989	Total
	Creative	Cemetery	Marina	Airport	Street	Water Supply Sewage Disposal System Improvements	Nonmajor Governmental Funds
	Playground				Improvements	Improvements	
Revenues							
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 67,155	\$ 39,057	\$ 106,212
State revenues	0	0	30,750	0	0	0	30,750
Charges for services	0	29,680	94,224	111,587	0	0	235,491
Contributions	540	0	0	0	0	0	540
Interest and rentals	107	103	977	4,959	180	147	6,473
Total revenues	647	29,783	125,951	116,546	67,335	39,204	379,466
Expenditures							
Public works	4,117	82,063	80,842	114,204	0	0	281,226
Debt service							
Principal	0	0	0	0	33,250	61,750	95,000
Interest and fiscal charges	0	0	0	0	3,097	5,508	8,605
Total expenditures	4,117	82,063	80,842	114,204	36,347	67,258	384,831
Excess (deficiency) of							
Revenues over (under) expenditures	(3,470)	(52,280)	45,109	2,342	30,988	(28,054)	(5,365)
Other financing sources and uses							
Transfers in/(out)	0	88,645	0	0	(26,911)	26,911	88,645
Net change in fund balances	(3,470)	36,365	45,109	2,342	4,077	(1,143)	83,280
Fund balances, beginning of year	5,374	7,949	30,821	44,010	2,454	5,260	95,868
Fund balances, end of year	\$ 1,904	\$ 44,314	\$ 75,930	\$ 46,352	\$ 6,531	\$ 4,117	\$ 179,148

CITY OF BOYNE CITY, MICHIGAN

**AGENCY FUNDS
COMBINING BALANCE SHEET**

APRIL 30, 2008

	<u>Current Tax Collection</u>	<u>Environmental Escrow</u>	<u>Boyne Senior Center</u>	<u>Total Agency Funds</u>
Assets				
Cash and cash equivalents	\$ 230,639	\$ 12,770	\$ 0	\$ 243,409
Accounts receivable	<u>0</u>	<u>0</u>	<u>3,175</u>	<u>3,175</u>
Total assets	<u><u>\$ 230,639</u></u>	<u><u>\$ 12,770</u></u>	<u><u>\$ 3,175</u></u>	<u><u>\$ 246,584</u></u>
Liabilities				
Deposits payable	\$ 0	\$ 12,770	\$ 0	\$ 12,770
Due to other funds	214,294	0	3,175	217,469
Due to other governmental units	<u>16,345</u>	<u>0</u>	<u>0</u>	<u>16,345</u>
Total liabilities	<u><u>\$ 230,639</u></u>	<u><u>\$ 12,770</u></u>	<u><u>\$ 3,175</u></u>	<u><u>\$ 246,584</u></u>

CITY OF BOYNE CITY
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
APRIL 30, 2008

	Beginning Balance	Additions	Deductions	Ending Balance
Current Tax Collection Fund				
Assets				
Cash and cash equivalents	\$ 35,719	\$ 8,757,537	\$ 8,562,617	\$ 230,639
Liabilities				
Due to other funds	\$ 34,536	\$ 2,922,397	\$ 2,742,639	\$ 214,294
Due to other governmental units	1,183	5,835,140	5,819,978	16,345
Total liabilities	\$ 35,719	\$ 8,757,537	\$ 8,562,617	\$ 230,639
Environmental Escrow Fund				
Assets				
Cash and cash equivalents	\$ 12,738	\$ 32	\$ 0	\$ 12,770
Liabilities				
Deposits payable	\$ 12,738	\$ 32	\$ 0	\$ 12,770
Boyne Senior Center Fund				
Assets				
Cash and cash equivalents	\$ 287,342	\$ 7,234	\$ 294,576	\$ 0
Accounts receivable	0	3,175	0	3,175
Total assets	\$ 287,342	\$ 10,409	\$ 294,576	\$ 3,175
Liabilities				
Due to other funds	\$ 0	\$ 3,175	\$ 0	\$ 3,175
Due to other governmental units	287,342	7,234	294,576	0
Total liabilities	\$ 287,342	\$ 10,409	\$ 294,576	\$ 3,175
Total all agency funds				
Assets				
Cash and cash equivalents	\$ 335,799	\$ 8,764,803	\$ 8,857,193	\$ 243,409
Accounts receivable	0	3,175	0	3,175
Total assets	\$ 335,799	\$ 8,767,978	\$ 8,857,193	\$ 246,584
Liabilities				
Deposits payable	\$ 12,738	\$ 32	\$ 0	\$ 12,770
Due to other funds	34,536	2,925,572	2,742,639	217,469
Due to other governmental units	288,525	5,842,374	6,114,554	16,345
Total liabilities	\$ 335,799	\$ 8,767,978	\$ 8,857,193	\$ 246,584

CITY OF BOYNE CITY, MICHIGAN

**BALANCE SHEET AND STATEMENT OF NET ASSETS
COMPONENT UNITS**

APRIL 30, 2008

	Governmental Type Activities					
	Downtown Development Authority	Adjustments	Statement of Net Assets	Local Development Finance Authority	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 61,812	\$ 0	\$ 61,812	\$ 891,481	\$ 0	\$ 891,481
Receivables	0	0	0	0	0	0
Prepaid items	0	0	0	0	0	0
Land	0	0	0	0	291,419	291,419
Other capital assets, net of depreciation	0	1,811,508	1,811,508	0	1,565,266	1,565,266
Total assets	\$ 61,812	\$ 1,811,508	1,873,320	\$ 891,481	\$ 1,856,685	2,748,166
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 3,677	\$ 0	3,677	\$ 82	\$ 0	82
Accrued expenses	1,252	0	1,252	0	0	0
Security Deposit Payable	0	0	0	0	0	0
Deferred revenue	10,250	0	10,250	0	0	0
Noncurrent liabilities						
Due within one year	0	65,000	65,000	0	64,989	64,989
Due in more than one year	0	130,000	130,000	0	373,689	373,689
Total liabilities	15,179	195,000	210,179	82	438,678	438,760
Fund balances						
Unreserved, undesignated	46,633	(46,633)	0	891,399	(891,399)	0
Total liabilities and fund balances	\$ 61,812			\$ 891,481		
Net Assets						
Investment in capital assets, net of related debt		1,616,508	1,616,508		1,418,007	1,418,007
Unrestricted		46,633	46,633		891,399	891,399
Total net assets		\$ 1,663,141	\$ 1,663,141		\$ 2,309,406	\$ 2,309,406

Business Type Activity					
Boyne City Housing Commission	Adjustments	Statement of Net Assets	Total All Component Units		
			Component Units	Adjustments	Statement of Net Assets
\$ 116,355	\$ 0	\$ 116,355	\$ 1,069,648	\$ 0	\$ 1,069,648
125,778	0	125,778	125,778	0	125,778
17,668	0	17,668	17,668	0	17,668
793,268	0	793,268	793,268	291,419	1,084,687
1,068,320	0	1,068,320	1,068,320	3,376,774	4,445,094
<u>\$ 2,121,389</u>	<u>\$ 0</u>	<u>2,121,389</u>	<u>\$ 3,074,682</u>	<u>\$ 3,668,193</u>	<u>6,742,875</u>
\$ 7,837	\$ 0	7,837	\$ 11,596	\$ 0	11,596
102,441	0	102,441	103,693	0	103,693
31,793	0	31,793	31,793		31,793
3,047	0	3,047	13,297	0	13,297
11,521	0	11,521	11,521	129,989	141,510
160,622	0	160,622	160,622	503,689	664,311
<u>317,261</u>	<u>0</u>	<u>317,261</u>	<u>332,522</u>	<u>633,678</u>	<u>966,200</u>
			<u>938,032</u>	<u>(938,032)</u>	<u>0</u>
1,694,577	0	1,694,577	1,694,577	3,034,515	4,729,092
109,551	0	109,551	109,551	938,032	1,047,583
<u>\$ 1,804,128</u>	<u>\$ 0</u>	<u>\$ 1,804,128</u>	<u>\$ 1,804,128</u>	<u>\$ 3,972,547</u>	<u>\$ 5,776,675</u>

CITY OF BOYNE CITY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR COMPONENT UNITS TO NET ASSETS OF COMPONENT UNITS ON THE STATEMENT OF NET ASSETS

APRIL 30, 2008

	Downtown Development Authority	Local Development Finance Authority
Fund balances - component units	\$ 46,633	\$ 891,399
Amounts reported for component units in the statement of net assets are different because		
Capital assets and note payable discount of the component units are not financial resources and therefore are not reported in the funds.		
Add - capital assets	2,052,336	2,289,339
Deduct - accumulated depreciation	(240,828)	(432,654)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Deduct - bonds, notes and loans payable	(195,000)	(438,678)
Net assets of component units	<u>\$ 1,663,141</u>	<u>\$ 2,309,406</u>

CITY OF BOYNE CITY, MICHIGAN

**STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
COMPONENT UNITS**

FOR THE YEAR ENDED APRIL 30, 2008

	Downtown Development Authority	Adjustments	Statement of Activities	Local Development Finance Authority	Adjustments	Statement of Activities
Expenditures/expenses						
Economic development	\$ 0	\$ 0	\$ 0	\$ 29,826	\$ 0	\$ 29,826
Health and welfare	0	0	0	0	0	0
Other	1,246,242	(1,029,763)	216,479	0	0	0
Depreciation expense	0	74,970	74,970	0	42,149	42,149
Debt service						
Principal	60,000	(60,000)	0	117,489	(117,489)	0
Interest	8,685	(824)	7,861	0	0	0
Total expenditures/expenses	<u>1,314,927</u>	<u>(1,015,617)</u>	<u>299,310</u>	<u>147,315</u>	<u>(75,340)</u>	<u>71,975</u>
Program revenues						
Charges for services	0	0	0	0	0	0
Operating grants and contributions	<u>119,643</u>	<u>0</u>	<u>119,643</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total program revenues	<u>119,643</u>	<u>0</u>	<u>119,643</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net program (expense) revenue	<u>(1,195,284)</u>	<u>1,015,617</u>	<u>(179,667)</u>	<u>(147,315)</u>	<u>75,340</u>	<u>(71,975)</u>
General revenues						
Property taxes	311,803	0	311,803	210,845	0	210,845
Unrestricted investment earnings	8,661		8,661	24,041	0	24,041
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total general revenues	<u>320,464</u>	<u>0</u>	<u>320,464</u>	<u>234,886</u>	<u>0</u>	<u>234,886</u>
Net program expense	0	0	140,797	0	0	162,911
Capital grants and contributions	<u>430,399</u>	<u>0</u>	<u>430,399</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources (Uses)						
Issuance of Long-Term Debt	<u>60,000</u>	<u>(60,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(384,421)</u>	<u>384,421</u>	<u>0</u>	<u>87,571</u>	<u>(87,571)</u>	<u>0</u>
Change in net assets	0	571,196	571,196	0	162,911	162,911
Fund balances/net assets						
Beginning of year	<u>431,054</u>	<u>660,891</u>	<u>1,091,945</u>	<u>803,828</u>	<u>1,342,667</u>	<u>2,146,495</u>
End of year	<u>\$ 46,633</u>	<u>\$ 1,616,508</u>	<u>\$ 1,663,141</u>	<u>\$ 891,399</u>	<u>\$ 1,418,007</u>	<u>\$ 2,309,406</u>

Boyne City Housing Commission	Adjustments	Statement of Activities	Total All Component Units		
			Component Units	Adjustments	Statement of Activities
\$ 0	\$ 0	\$ 0	\$ 29,826	\$ 0	\$ 29,826
674,048	0	674,048	674,048	0	674,048
0	0	0	1,246,242	(1,029,763)	216,479
133,189	0	133,189	133,189	117,119	250,308
0	0	0	177,489	(177,489)	0
0	0	0	8,685	(824)	7,861
807,237	0	807,237	2,269,479	(1,090,957)	1,178,522
225,012	0	225,012	225,012	0	225,012
471,309	0	471,309	590,952	0	590,952
696,321	0	696,321	815,964	0	815,964
(110,916)	0	(110,916)	(1,453,515)	1,090,957	(362,558)
0	0	0	522,648	0	522,648
2,459	0	2,459	35,161	0	35,161
88,880	0	88,880	88,880	0	88,880
91,339	0	91,339	646,689	0	646,689
(19,577)	0	(19,577)	(19,577)	0	(19,577)
0	0	0	430,399	0	430,399
0	0	0	60,000	(60,000)	0
0	0	0	(296,850)	296,850	0
(19,577)	0	(19,577)	(19,577)	734,107	714,530
1,823,705	0	1,823,705	3,058,587	2,003,558	5,062,145
<u>\$ 1,804,128</u>	<u>\$ 0</u>	<u>\$ 1,804,128</u>	<u>\$ 2,742,160</u>	<u>\$ 3,034,515</u>	<u>\$ 5,776,675</u>

CITY OF BOYNE CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2008

	Downtown Development Authority	Local Development Finance Authority
Net change in fund balances - total component units	\$ (384,421)	\$ 87,571
Amounts reported for component units in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Add - capital outlay	1,029,763	0
Deduct - depreciation expense	(74,970)	(42,149)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Issuance of long-term is an other financing source in the governmental funds but increases long-term debt in the statement of net assets.		
Add - principal payments on long-term liabilities	60,000	117,489
Deduct - Proceeds of debt issuance	(60,000)	0
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add - decrease in accrued interest payable on bonds	824	0
Change in net assets of component units	<u>\$ 571,196</u>	<u>\$ 162,911</u>

CITY OF BOYNE CITY , MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED APRIL 30, 2008

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES FOR THE YEAR ENDED APRIL 30, 2008
<hr/>			
U.S. Department of Agriculture - Rural Development			
Community Facilities Loans and Grants	10.766	\$ 10,000	<u>\$ 10,000</u>
 U.S. Department of Housing and Urban Development			
Passed through Michigan Economic Development Corporation			
Community Development Block Grants			
CDBG MSC 204032-PW	14.228	566,900	113,330
CDBG MSC 205036-ICE	14.228	1,000,000	488,932
CDBG MSC 206008-ICE	14.228	630,867	484,375
Total U.S. Department of Housing and Urban Development			<u>1,086,637</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,096,637</u>
 Reconciliation to financial statements			
Amount recorded as grant revenue within the Wastewater Enterprise Fund			\$ 283,077
Amount recorded as grant revenue within the Water Enterprise Fund			113,652
Amount recorded as grant revenue within the Local Street Fund			181,280
Amount recorded as grant revenue within the Major Street Fund			78,230
Amount recorded as grant revenue within the Ambulance Fund			10,000
Amount recorded as grant revenue within the Downtown Development Authority Fund			<u>430,398</u>
 Total federal expenditures			 <u>\$ 1,096,637</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Baird, Cotter and Bishop, P.C.

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October 17, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Members of the City Commission
City of Boyne City
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Boyne City, Michigan as of and for the year ended April 30, 2008, which collectively comprise the City of Boyne City, Michigan's basic financial statements and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered The City of Boyne City, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boyne City, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Boyne City, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Boyne City Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Boyne City, Michigan's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Boyne City, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Boyne City in a separate letter dated October 17, 2008.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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October 17, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Members of the City Commission
City of Boyne City
Charlevoix County, Michigan

COMPLIANCE

We have audited the compliance of City of Boyne City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2008. The City of Boyne City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Boyne City's management. Our responsibility is to express an opinion on the City of Boyne City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Boyne City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Boyne City's compliance with those requirements.

In our opinion, the City of Boyne City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Boyne City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Boyne City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City as of and for the year ended April 30, 2008, and have issued our report thereon dated October 17, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Boyne City, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF BOYNE CITY , MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2008

SECTION 1 - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditor's report issued: Unqualified

Internal control over financial reporting:

Significant deficiencies identified: No

Significant deficiencies identified that are not
considered to be material weaknesses? None reported

Non-compliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Significant deficiencies identified: No

Significant deficiencies identified that are not
considered to be material weaknesses? None reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
14.228	Community Development Block Grants

Dollar threshold to distinguish
between type A and type B programs: \$300,000

Auditee qualified as a low risk auditee? Yes

CITY OF BOYNE CITY , MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED APRIL 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.

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October 17, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Mayor and City Commission
City of Boyne City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan for the year ended April 30, 2008, and have issued our report thereon dated October 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Boyne City, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Boyne City, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Boyne City, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that

have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other matters we wish to bring to your attention:

At April 30, 2008, the Water Fund did not have sufficient fund the reserves required by its revenue bond ordinances.

This communication is intended solely for the information and use of the City Commission and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.